



THE COMMONWEALTH OF MASSACHUSETTS
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January 26, 2004

Representative Daniel E. Bosley
Joint Committee on Government Regulations
House Chairman
State House, Room 472
Boston, Massachusetts 02133

Re: Electric Utility Restructuring 2004

Dear Chairman Bosley:

I am writing in response to the proposal that you outlined at our recent meeting on January 21st entitled, "Beyond the Standard Offer – Fulfilling the Promise of 1997: Competition, Reliability and Stability." Although I will keep this letter brief, I am available to discuss ideas and concepts about how to ensure a smooth transition into a post-Standard Offer era.

The Attorney General appreciates all of the time and effort you have put in over the years to consider the structure of the energy marketplace after the end of the transition period. As we move toward the end of the transition period in March 2005, I look forward to working closely with you to ensure that the structure we put in place accomplishes goals that are in the best interest of the millions of electricity consumers in Massachusetts. Certainly, the proposal contained in your recent handout demonstrates a great deal of thought as to how the energy marketplace should be configured after the transition period ends in March 2005.

The overall objective of Electric Restructuring was and remains to produce real benefits for customers, and proposals for change must be measured against this standard. While the Electric Restructuring Act of 1997 changed the role of electric utilities with respect to generation services and choice for customers, proposals that mandate even more fundamental changes in the relationship between small customers (residential and small commercial and industrial customers) and electric service providers should be examined carefully in order to ensure that benefits will accrue to customers in the form of lower prices, price stability, enhanced reliability and service quality. Absent consensus on the benefits of a proposal and a guarantee that the structure will yield improvements for electricity consumers, it would be premature to embrace such a significant change. I am concerned that the structure outlined in the current proposal may have a detrimental impact

on customer rates, system reliability, Massachusetts jobs, low-income and small-business customers and the financial integrity and the ability of utility companies to provide safe and reliable service to customers.

I have attached a set of principles submitted by the Attorney General, NSTAR, the Massachusetts Community Action Program Directors (“MASSCAP”) and the Unions to the Department of Telecommunications and Energy (“Department”) regarding the future of default service in the Commonwealth. These principles should serve as a guide to ensure that the policy and legislative changes to the Act result in actual benefits to customers.

I look forward to working closely with you as we enter a new era in Massachusetts Electric Utility Restructuring.

Very truly yours,

Joseph W. Rogers
Chief, Utilities Division

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELCOMMUNICATIONS AND ENERGY

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Notice of Inquiry)D.T.E. 02-40
Provision of Default Service)
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**JOINT STATEMENT OF GUIDING PRINCIPLES FOR THE FUTURE PROVISION
OF DEFAULT SERVICE**

SUBMITTED BY
ATTORNEY GENERAL OF THE COMMONWEALTH OF MASSACHUSETTS
MASSACHUSETTS COMMUNITY ACTION PROGRAM DIRECTORS
ASSOCIATION
NSTAR ELECTRIC

**I. Assumptions and Guiding Principles for Related to the Future Provision of
Default Service**

The undersigned parties believe that, like the development of industry restructuring itself, consideration of changes to Default Service should be evaluated in light of some overarching assumptions and guiding principles. These should include:

- The overall objective of restructuring was and remains to produce real benefits for all customers, and all proposals for change must be measured against this standard.
- Restructuring and wholesale competition have produced substantial benefits for customers, although opportunities for direct access to retail markets have developed at a different pace for different customer groups.
- Smaller customers have not had significant access to competitive retail electric markets; residential, and especially low-income customers, may not have viable, reasonably priced retail competitive options.
- Default Service provided by local utilities may be the only viable energy option for small, residential and low-income customers for the foreseeable future; such service provides a valuable means of delivering the benefits of the competitive market to those customers, and should continue to be offered to them.
- Default Service prices should not be below the costs incurred to procure Default Service from the competitive market - this ensures that Default Service rates are not subsidized and thereby create an artificial price barrier to retail competition.

- Customers should not be forced to pay rates for Default Service that exceed the market-based, competitively established costs to serve them so that even those customers who do not have viable, direct access to retail competition will continue to benefit from competitive markets
- Retail ***choice*** should be maintained and therefore customers should not be involuntarily assigned to retail suppliers (i.e., slammed).

II. Future Design of Default Service

In the context of the foregoing assumptions and guiding principles, Default Service should be designed as follows:

- The price of Default Service should include only those costs incurred to provide the service. These costs may include items such as costs of procuring energy, provided that an appropriate relationship is maintained between base rates and default service rates.
- Default Service for large customers should be procured and priced on a short term basis, in order to maintain a close relationship between the price of default service and the real time, wholesale price of power.
- Default Service for small customers should be procured and priced over a longer term, in order to assure greater price stability for those customers.
- The parties do not believe that additional pricing options are needed for customers, since customers currently have the option of variable or fixed (six month) pricing alternatives.
- Any mandated procurement process for Default Service should be flexible enough to allow utilities to make purchases that are in the customers' best interests and result in the lowest reasonable price for customers.

Signed: _____

Signed: _____

Signed: _____